

# **NORTH DAKOTA ASSOCIATION OF COUNTIES**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The NDACo was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided thereunder are funded by dues from member counties and special programs and projects of the NDACo.

The NDACo has chosen to segregate these monies into two separate funds (Funds) with identical investment policies. This statement governs both Funds.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Funds' assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

### **3. INVESTMENT OBJECTIVES.**

Funds in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and claims payment needs. The investment fund(s)

may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Funds' investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Funds should produce a rate of return that meets or exceeds the portfolio policy index defined as 26.25% S&P 500 domestic stock index, 8.75% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Aggregate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Funds should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Funds should match or exceed the expected 6.65% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 8.50%.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the Funds is established by the North Dakota Association of Counties with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Funds:

Large Cap Domestic Equity	26.25%
Small Cap Domestic Equity	8.75%
International Equity	10.00%
Fixed Income	50.00%
Cash Equivalents	5.00%

Rebalancing of the Funds to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Funds' assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Funds' policy favors investments which will have a positive impact on the economy of North Dakota.

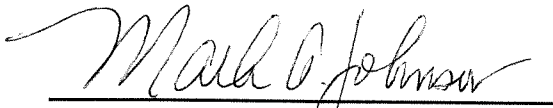
## **6. EVALUATION AND REVIEW.**

Investment management of the Funds will be evaluated against the Funds' investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

Approved by:

**ND ASSOCIATION OF COUNTIES**



**Mark Johnson**  
Executive Director, NDACo

Date: 6-6-05

**STATE INVESTMENT BOARD**



**Steve Cochrane**  
Executive Director/CIO, RIO

Date: 6-17-05



MARK A. JOHNSON  
EXECUTIVE DIRECTOR  
[www.ndaco.org](http://www.ndaco.org)

# Memo

**To:** Connie Flanagan, RIO

**From:** Mark A. Johnson, CAE, Executive Director

**Date:** 2/15/2006

**Re:** Adjust Asset Allocation in NDACo Fund Portfolio

---

Please make the following adjustments to the NDACo Fund Portfolio effective February 1, 2006. Move 10% from Fixed Income and equally divide the allocation in the following funds:

1/3 in large cap equity

1/3 in small cap equity

1/3 in international fund

If you have any questions or need additional information, please contact Genny at 328-7323. Thank you.